A CFO’s KEY COMPETENCIES FOR THE FUTURE
“The CFO is a living member of the company; he is not the heart or the brain, but he is part of the heart and the brain of the company. They must contribute and not be just a glorified accountant. But it changes because it NEEDS to change to support the business, and because that’s life. It changes.”
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INTRODUCTION

This report chronicles the discussions on the key competencies of a CFO in the present day and for future aspiring CFOs in the Malaysian context. It has been compiled from the collection of insights shared by groups of experienced C-suite members and directors in finance, accounting and management from diverse fields. The fields include banking, telecommunications, retail, FMCG, primary commodities, construction and property, insurance, advisory, regulatory and energy management. The contents of this report is a summary of the insights shared through two roundtable discussions conducted in Kuala Lumpur in October 2016.

While the intention is to capture and compile all insights and commentary as accurately as possible – and some remarks have been highlighted for their significantly impactful contribution to the conversation – some phrases have been edited from their original for purposes of brevity and editorial licence. In the spirit of Chatham House rules and of objectivity, all panellists’ identities remain anonymous in this report.
EXECUTIVE SUMMARY

In the face of the changing business landscape where volatility, uncertainty, risk, ambiguity and disruption are becoming more prevalent, the role of the CFO has undergone several evolutions and is thought to go through several more.

According to a published 2013 discussion paper from the International Federation of Accountants (IFAC), the roles of a CFO are susceptible to changing expectations, scope and mandate. How these changing expectations and roles impact a business or the sustainability of it, remains an open debate.

However, there are key requirements that prevail in the face of external changes and trends.

5 PRINCIPLES* GUIDING THE ROLE AND EXPECTATIONS OF A CFO

ORGANISATIONAL LEADER
Be an effective organisational leader and a key member of senior management.

BUSINESS PARTNER & STEWARD
Balance the responsibilities of stewardship with business partnership.

INTEGRATOR & NAVIGATOR
Act as the integrator and navigator for the organisation.

FINANCE & ACCOUNTING LEADER
Be an effective leader of the finance and accounting function.

PROFESSIONAL
Bring professional qualities to the role and the organisation.

SUSTAINABILITY AND INNOVATION
A business has to fight to retain its spot and relevance in the market, and perhaps even more following the onslaught of innovators, new entrants and upstarts who have rocked the status quo.

TECHNOLOGY
Technology is changing the face of business, but so is business within itself. The traditional brick-and-mortar business model is no longer the rule of thumb, and systems and processes change organically or are forced to change. Some new processes have been borne out of market demand. Nobody would have thought a decade ago that we could pay our bills or for our groceries using a wireless, hand-held phone.

AMBIGUITY
Ambiguity is a concern, where businesses deal with rules and regulations and operating beyond the local market, with ensuing complications across different countries. Therefore, we need to look at the ability of the finance and accounting professionals to provide reliable insight and order in compliance work, in the face of this ambiguity.

*IFAC report on ‘The Roles and Expectations of a CFO’ (2013)
A CFO’s role has changed over the years. It is said it will change again, and probably much sooner than some are prepared for. Think three years instead of ten.

Organisations are finding it more challenging and difficult to sustain business success. The dynamics of business are changing and finance professionals are discovering the need to make better decisions faster just to keep up. The conversation now revolves around how the future is no longer calculable by a forecast set in years; often, forecasts become estimates in the face of changeable and exceedingly fluid business plans. This is not an exaggeration or dramatisation; what we once thought of as inconceivable can now happen. Brexit is a key example. Digitisation – the Fourth Industrial Revolution – is another.

How does a CFO remain relevant for the future?

What key skill sets will be redundant in the next three years and what roles and competencies will become more essential?

This report attempts to answer those questions with the help of research, numerous valuable insights and the sharing of experiences from all roundtable panellists, with the intent of providing a guideline for forward-looking and aspiring CFOs to deal with an unknowable future.

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In addition to being competent, a CFO now needs to be versatile. How will this evolving versatility dictate new professional competencies required of the CFO in the future?

DIVERGENCE AND SIMILARITIES

One of the key challenges facing CFOs today is the dilution/divergence of focus. Far from being the historical/traditional gatekeepers of all matters financial and pecuniary, they are now advisors, consultants and business partners.

Increasingly, CFOs are either taking on too much, are asked to take on more responsibilities or areas of business outside their expertise, or are lumbered with oversight responsibility for tasks that do not seem to belong to other departments.

On top of the primary roles of a CFO as a gatekeeper, he/she now has secondary roles, which begs the question, “How long is a piece of string?” Secondary roles can and do include responsibility for or management of IT, procurement, legal and HR. These roles, however, require specialised skills.

Historically, finance and accounting professionals were tasked with looking after the dollars and cents, calculating the profit and loss and presenting the financial statements to the board. Open and shut case, as one panellist dryly remarks, like opening and closing the (financial) books; that was all the job entailed.

Nonetheless, certain constants and similarities prevail but the question is, for how much longer will these similarities hold?
A CFO’s KEY COMPETENCIES FOR THE FUTURE

THE ROLES AND EXPECTATIONS OF A CFO

CFOs are primarily guided by four key roles. They are:

**CREATOR**
Creators of value (strategic value creation)

**PRESERVER**
Preservers of value (assets and liabilities management, risk management, internal controls)

**REPORTER**
Reporters of value (internal and external reporting)

**ENABLER**
Enablers of value (support the stakeholders in making decisions and understanding the performance)

Value is the connector between these four roles. These roles, in theory, carry equal weightage and collectively, drive performance and support conformance. The expectation now is that the CFO is expected to be more involved with performance (strategy, operations) and driving the business, as conformance is a given.

The panellists weigh in with their diverse observations.

The wave of change is so rapid, says one panellist, that it is not only CFOs who are struggling but every member of the C-suite, too, is struggling to keep up with that pace. She speaks of sustainability every day in the business.

“How do we think about the shift from the old ways of doing business to the integrated way of doing business now?” It is not a rhetorical question.

“This change is inevitable; there are no maybes about it. That’s the challenge.”

While conformance would have been a key priority a decade ago in Malaysia, (putting controls in place, understanding governance fully, and so on), says another panellist, the shift of late has been towards performance. The last ten years have been witness to dramatic changes to businesses and subsequently, the CFO’s role. When an organisation is achieving their ten-year target in two years, with conformance and controls all firmly in place, then performance has leapfrogged over conformance. Performance and conformance are no longer parallel in a business.

From becoming a controller in a centralised fashion, there’s going to be much more decentralisation of the conformance aspect [in the future] with accountability and ownership in the organisation taking greater importance.

This is because the nature of business is changing from brick and mortar and becoming more digital.

While growing in size is not necessarily a bad thing, we examine the digital aspect first, for the very reason that it can both help and hinder. As one panellist astutely observed, “With digitisation, conformance becomes less organised and less rigid”.

Conformance evolves and makes space for culture, people, accountability and responsibility.
DIGITISATION

To add to this (forced) evolution of the CFO’s role is the prevalence of digital technology and the head-spinning velocity with which it is advancing, and some might say, encroaching into business processes.

For instance, online businesses – and the unprecedented popularity they enjoy with digitally-savvy consumers – have now reshaped the payment process, an area that traditionally leads to the final authority of the CFO. Online and e-commerce payment and transaction methods pose a risk and security concern for the team in charge of revenue collection and tracking. Is the CFO expected to be an IT expert in this scenario? And can he/she acquire the competency and skill to manage this area of the business?

Furthermore, mushrooming digital businesses (think Alibaba, Airbnb, Foodpanda, Uber, etc.) pose challenges for financial administration and regulation. This is uncharted territory for which there is no framework or guideline, in financial governance, control and compliance, areas that also traditionally fall under the purview of a CFO.

“What are the financials? What is the intrinsic value? A CFO needs to be able to understand this type of business model,” says a panellist.

In a brick-and-mortar business, there are tried-and-tested controls and processes in place to ensure expenditure and receivables are monitored and tracked, and that profit is reported accurately.

When a business changes to include an associate digital arm or is moving into a fully-digital version of itself, how then does a CFO fit into the overall organisation?

As one panellist remarked,

“Digital business models are revolutionising the way we do business, and the way we need to think. As CFOs, do we need to control everything or do we need to understand everything? Or to guide where people need to go? The top layer of management becomes more critical as the business moves forward with digitisation.”

A cautionary tale of digitisation

Digitisation has also changed the dynamics of demand. With more accessible information, customers know more and more, what they want and what they don’t. This has shifted from the time companies made goods or provided services based on an estimate of what consumers wanted, and then proceeded to market these goods and services aggressively.

But with the advent of social media platforms, consumers are making their (very specific) satisfaction or displeasure known. These digital broadcasts often reach a wide, borderless audience with an instantaneous connection that traditional channels simply cannot compete with. (The popular term for such broadcasts is “going viral.”)

In the instance of a Malaysian conglomerate this year, that customer interaction on digital platforms cost the company an unprecedented loss of thousands of customers in a matter of months, sparked by one customer challenging the company’s decision to engage in selective price differentiation based on an unsubstantiated, arbitrary corporate decision.

The negative feedback went viral, other customers took the opportunity to do the same, and the company suffered the loss of a huge chunk of their customer base. The financial implications of this event on the company’s quarterly results need not be spelt out. This is how digitisation can impact a business.

And a CFO needs to come to grips with this unmeasurable area that is digitisation.
Interestingly, however, digital participation is a double-edged sword.

Oversight responsibility in the IT aspect of a business has inadvertently found its way into the job description of the present-day CFO. A common lament among CFOs is that not only do they find themselves in charge of teams handling IT, they also find themselves roped in to matters and issues over human resources, administration, and production, legal or even marketing.

Not all CFOs are IT, product labelling or HR experts but their ability to put on the ‘governance hat’ is useful to other divisions. That is the reason they are roped in for the above discussions, reinforcing their role as business partners.

At the other end of the spectrum, there are IT tools that can help a CFO with real-time sales tracking, with immediate complex analyses such as hourly sales revenue per square metre of retail space, but either the team is not equipped with these tools, or, these tools spell the impending redundancy of the finance team because these tools can churn out the reports faster, with all possible variables thrown in, in an online form that even the CEO has access to in real-time.

What these tools may not have, however, is the analytical depth behind the figures. As one panellist shared,
A CFO’s KEY COMPETENCIES FOR THE FUTURE
EVOLUTION OF A CFO’S ROLE

While external forces may dictate the evolution of the role of a CFO, so too can internal forces.

Using the sharing of experiences to illustrate this point, several CFOs have found themselves tasked with poring over the minutiae of legal contracts with vendors where exit clauses have been absent or vendors are paid unreasonably large sums in the absence of competing tender pitches or fee/price negotiations. Far from simply knowing how much has to be paid and how it will impact the bottom-line, a CFO now has to re-jig contracts which should, technically, be undertaken by the Legal Department.

In an entrepreneurial scenario, more so with a young organisation, the CFO often finds him/herself embroiled in the nitty-gritty of operations. This can have unsettling consequences, more so when the reporting of financial results from two months ago show a distorted disconnect with on-site progress, and so, the CFO finds him/herself out of the office and on-site discussing project management details which reflect the true financial progress of operations. This reporting disconnect is not limited to young enterprises; it can also happen to large conglomerates, for instance, in the retail industry.

In another aspect, CFOs also find themselves burdened with the anxiety over the security of data, more so, when certain parts of the business are outsourced to a shared services provider, because security – or the lack of – is intrinsically linked with risk, and CFOs must take care of risk management, and anything that might have risk implications. Even in an area seemingly unrelated, such as data security – which is more pronounced if you are a telecommunications or tech giant such as Google or Apple – security inevitably becomes an added area for the CFO to manage. Security can impact your bottom-line, even though a CFO 15 years ago would not have traditionally been expected to worry about this.

For example, in telecommunications, where previously the organisation needed to own everything, such as server rooms that have 900 servers in them. But there is the realisation that you, the controller, can have someone provide it to you and you only need to understand it instead of controlling it, so that effectively means, the control portion [of your CFO role] is going to change.

“That leaves the CFO with a lot more space to be a business partner.”

A panellist added that what should be included in any defined role for a CFO is that of

- A performance accelerator
- A talent manager
- An excellent communicator.

“Because the CFO is only as good as the team that is making things happen.”

Finding the right talent for the finance team to support the changing role of CFOs is a constant challenge. Upskilling of the finance team in this instance is very important. Often CFOs need to spend one-third of their time just communicating with their finance team, because it is not enough for them to just produce and report the financial results. It is important for CFOs to know how the organisation arrived at those results and to provide insights from those results.

Again, the story behind the numbers, matters.
When we talk about CFO skills in Malaysia, a panellist remarked, “We have only about thirty percent.” We rely on people occupying the seats (in the team) who are more technical; later, however, these technically-skilled people will have to be presenters and ambassadors in their journey to becoming a CFO.

This changes priorities.

Many CFOs shouldn’t have to be too concerned with taking care of IT; CFOs shouldn’t focus on IT/Legal/Operations - though they are important - but in the future we should have specialists in IT and so on, just as CFOs should specialise in their areas, but the collaboration part is very important.”

And so, CFOs inevitably find themselves developing skills needed for successful collaboration. Collaboration, after all, is a key ingredient in sustaining business success.

The shift, in the last five years, in importance from conformance (conformance is a given) to culture, people, accountability and responsibility, as mentioned earlier, underscores this point about collaboration (within Finance and between departments): business boils down to being about the people.

And CFOs are finding the shift in their roles as people managers, accelerating.

A CFO is increasingly required to understand the business across all lines, not just the financial aspects. He/she is required to know, for instance, what revenue increase expectation Marketing has in launching a discounted price campaign, or why Production has decided to change electrical cables requiring another sizeable chunk of investment, and to integrate this knowledge when thinking about strategy.

Knowing such minute details should not, however – as several panellists echo – be synonymous with managing them, controlling them or being the key decision-maker for them. This is where the risk of skill-stagnation or role-paralysis comes into play. A CFO, at some point, has to focus on the bigger picture. That is what a business leader and partner does.

With the uncertain, fluid business landscape as the backdrop, how does a CFO perform the role of business partner/leader? How does a CFO break down the silos of responsibility and accountability across the business?

And more to the point, is that expected of a CFO?

With the increasing use of integrated business, integrated thinking and reporting, these concerns become even more acute.

Understanding all aspects of a business, say several panellists, and integrating that thinking into strategy, is one way of future-proofing, especially when the pace of changes is so rapid.
The future will bring its own set of challenges, but the panellists have their own distinctive views on the shifts shaping the future roles of a CFO and the future competencies that will be required.

The panellists were asked to rate, in a worksheet, the importance (on a scale of 1 – most important – to 5) of key roles and competencies of CFOs in Malaysia, as they are now and what they think they will entail in the future.

For example, do they see that the future CFO will place greater emphasis on directing and overseeing various ‘hygiene factors’ to safeguard an organisation’s assets and maintain its license to operate, or do they consider creating an environment where employees and stakeholders understand the organisation’s vision and aspiration, more important?

The results are striking in their polarisation.

While the results do not show the respondent’s ratings in the context of the industry or organisation to which they belong, (some competencies are more important depending on the industry, size or DNA of an organisation) there are some clear results that will determine the future mould of a CFO.
The top-tier key roles and competencies that were considered most important in the future (as demonstrated where two-thirds or more of the panellists were in agreement), for a CFO are:

1. Organisational leadership: The CFO as an effective organisational leader and key member of the senior management team; the CFO needs to facilitate the delivery of sustainable value creation and preservation.

2. Organisation’s vision and aspiration: Creating an environment where employees and stakeholders understand the organisation’s vision and aspiration.

3. Stakeholder value: Creating and maintaining sustainable value for shareholders and stakeholders (maximum revenue, minimum costs, maximum economic value and sustainability).

4. Value creation and preservation: Sustainable value creation and preservation (balance short term gain and long term vision).

5. Driving profitable growth: The CFO is a driver of performance by participating in strategy development and validation, implementation and evaluation.

6. Governance: Risk management and internal control that supports the organisation in achieving its objectives.

7. Integrator and navigator: Corporate responsibility or sustainability - integrating economic, social and environmental factors in interactions with stakeholders and business practices and integrating both financial and non-financial performance.

8. Finance and accounting leader: Ensuring that the F&A function delivers proactive business partnering and serves as a role model for other functions in the areas of transparency, quality, ethics and innovation.

9. Adaptive F&A function: Ensuring the F&A function is adaptive and changes as the organisation and its needs change - more dynamic and responsive approaches to planning and performance management to respond to the uncertainties of a rapidly changing business environment that affects key business drivers.

10. Strategic management: The CFO is at the centre of strategic management - facilitating a common and unifying perspective on the organisation’s strategic objectives, opportunities and threats, business model - critical success factors including resources, capabilities and competences needed in relation to changing circumstances and environmental factors and trends.

These competencies were formulated based on the five principles guiding the role and expectations of a CFO, namely the CFO as

1. An Organisational Leader
2. A Business Partner and Steward
3. An Integrator and Navigator
4. A Finance and Accounting Leader, and
5. A Professional.

While the results of the worksheet are a one-off snapshot of a select group of C-suite finance professionals, they clearly show that in the future, the shift in CFO roles and competencies will be towards the CFO being an organisational leader driving business performance and growth. The CFO will be the primary custodian of governance, conformance and risk management in addition to being a key decision-maker in achieving strategic objectives as well as being part of the strategic formulation team with integrated thinking woven into organisational culture and operations.

This means that future aspiring CFOs need to arm themselves with leadership skills, communication skills, people management skills as well as have the tools to help cultivate collaboration and trust because technical skills in F&A, professionalism and ethical governance and accountability are all a given. In the next three years it will become more important for performance to become an area of emphasis for the CFO in his/her role and conformance will always be a given. This means, in broad terms, the four roles of creator, enabler, preserver and reporter of value will experience a shift in distribution of importance for the future CFO.

As several panellists expressed,

“A CFO needs to be flexible, adaptable and proactive, not reactive.”

What is equally noteworthy is the convergence of panellist views in a subsequent discussion on various skills (and skills gaps), the importance of leadership skills, communication skills and how important it is for the F&A function to have the trust of the organisation. This is in addition to the CFO being the check-and-balance person to question certain business decisions while supporting other non-financial decisions even in the absence of compelling financial benefit or advantage.
A CFO's KEY COMPETENCIES FOR THE FUTURE
One of the key points raised by several panellists is how crucial it is for the modern-day CFO to be able to engage the board and getting their buy-in as a form of support. “This is where people skills come in. If you don’t have board support, you can’t grow, even though they give you the mandate to do things, but you need their support to achieve objectives or even when you propose things that are not on the usual agenda.”

People skills are also needed to constructively engage other internal and external stakeholders.

The importance of these skills is documented in a CGMA framework developed by CIMA and AICPA.

The framework lists four skill sets needed for a finance professional and leader:

These skills are supported and underscored by the constant thread of ethics, integrity and professionalism. The premise is that these four competencies will vary in importance as a finance professional grows in an organisation.

While most panellists agree that technical skills decrease in importance as a finance professional moves up in leadership roles and rank and the need for leadership and people skills will increase, there are certain other specific points raised.

One panellist remarks, “When I see strategy fall under [the heading of] business skills, I think it should be under leadership skills because you need leaders to drive the strategy and then you can drive it through the organisation so that the business will deliver it.”

The overwhelming agreement across the board is that communication skills should be a core part of teaching or acquiring leadership skills. People skills are increasingly needed for internal stakeholders (from whom support and collaboration are essential for sustainable achievement of business objectives) rather than for external stakeholders.

And what aspiring future CFOs should also be keenly aware of is another point that receives resounding endorsement across the board of panellists: that people skills become more important to have and hone the higher you climb up the finance leadership ladder, and once you are in the C-suite, people skills are even more crucial.
THE FOUR BIGGEST DISRUPTORS TO THE CFO’s ROLE

According to a report by EY - Do you define your CFO’s role or does it define you? The disruption of the CFO’s DNA - these are the key areas CFOs need to be aware of that are disrupting the roles of CFOs, so as to remain relevant in the future.

“So if I, as the CFO or finance head, am not interested in being innovative (with processes, etc.) to put the company ahead of its competitors, then it’s no good. We as finance professionals have to now consider this as a new skill. Five years ago this wasn’t the case.

“See what happens with Uber and the way it has disrupted [the taxi/transport] sector. What if someone does this [type of disruption] to the finance industry?”

“There are a lot of forces coming through, like regulation is coming in, or digital and talent management, and these are going to change the CFO’s role even further. I don’t think the role can naturally settle to one place and I can’t imagine what the next five years are going to look like for the CFO.”

Interestingly, another panellist shared this very astute point: although the long-term view has always been part of her job currently, in the future sustainability, as opposed to preoccupation with short-term gains, will be topmost on most CFOs’ agendas “especially as a response to stakeholders’ and shareholders’ requirements.”

While the present and the short-term may dictate that CFOs – and indeed all members of any organisation – will be concerned with achieving what is stated in the vision and mission statement, an uncertain future may dictate that CFOs will be more involved with how to create value, how to preserve and how to sustain value. The circular lifecycle of a CFO being what it is, he/she may even find him/her-self still tasked with reporting the value they have helped create.

“Sustainable value creation is where we are today especially at the internal and external stakeholder level,” says one panellist, more so in the face of regulatory changes and environmental shifts. This in turn forces a shift onto skill sets, vision and understanding.

“As you move forward that becomes a lot clearer and needs to be reinforced. You have to ensure you have key relationships and engagements in place as you move forward (with a view to sustaining value creation). The other panellists are in agreement.

“We are being challenged to stay relevant.”

“I think for some of us,” says one panellist in jest which sounds more like the truth, “the future is already here.”
Joining the dots: Decision making for a new era
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FURTHER READING
The following reports are relevant to CFOs, wanting to make a difference in their organisations. Be at the cutting edge of your profession through CGMA thought leadership brought to you by CIMA and the AICPA. Get access to the reports at www.cgma.org